

## Title 2. California Public Employees' Retirement System

### SECTION 558.1 PERSONAL TRADING

(a) Definitions.

(1) Black-Out Period. Black-Out Period means the three-day period of time that commences one calendar day before and ends one calendar day after a transaction in Securities by CalPERS.

(2) Covered Account.

(A) Covered Account includes the following:

(i) An account with the capability of trading Securities to which a Covered Person holds legal title or over which the Covered Person has the power to place or direct trades.

(ii) 401(k) and 457 accounts held by a previous employer of the Covered Person are considered Covered Accounts, provided brokerage access to buy and sell individual Securities has been activated.

(iii) 401(k) and 457 accounts within the State Savings Plus Program, provided brokerage access to buy and sell individual Securities has been activated.

(B) Covered Account does not include the following:

(i) An account over which the spouse or registered domestic partner of the Covered Person Employee has the power to place or direct trades by virtue of the spouse's or registered domestic partner's employment (e.g., the spouse or registered domestic partner is a money manager, financial advisor, etc.), unless the spouse or registered domestic partner is also employed by CalPERS.

(ii) Bank accounts.

(iii) Treasury direct accounts.

(iv) Mutual fund-only accounts (including 529 plans).

(v) Managed Accounts.

(3) Covered Person. Covered Person means a person holding any of the positions listed below.

- (A) CalPERS Board members and their representatives;
- (B) The CalPERS Chief Executive Officer;
- (C) The CalPERS Deputy Executive Officers;
- (D) The CalPERS Assistant Executive Officers;
- (E) The CalPERS Chief Financial Officer;
- (F) The CalPERS Chief Actuary;
- (G) The CalPERS Chief Risk Officer;
- (H) All employees of the CalPERS Office of Enterprise Risk Management;
- (I) All employees of the CalPERS Investment Office;
- (J) The CalPERS Division Chief of Fiscal Services;
- (K) All employees of the CalPERS Investment/Fund/Retirement Program Accounting Section of the Fiscal Services Division, except the Retirement Program Accounting Units;
- (L) All employees of the CalPERS Office of Audit Services, except Senior Program Evaluators (Public Agency Team) and all employees directly reporting to the Senior Program Evaluator (Public Agency Team);
- (M) All employees of the CalPERS Benefit Program Policy & Planning Branch whose positions are designated in the CalPERS Conflict of Interest Code at 2 Cal. Code Regs Section 560;
- (N) All employees (and their direct supervisors) of the CalPERS Information Technology Services Branch who perform work assignments within the Investment Office's physical or virtual secured area, and who have the potential to obtain access to non-public investment-related information;
- (O) The CalPERS General Counsel, Deputy General Counsel, Assistant Chief Counsel (Investments), Staff Counsel and Senior Staff Counsel reporting to the Assistant Chief Counsel (Investments), Assistant Chief Counsel, Senior Staff Counsel and Staff Counsel who advise the CalPERS Health Plan Administration

Division of the Benefit Programs Policy and Planning Branch, and Assistant Chief Counsel, Senior Staff Counsel and Staff Counsel who advise on CalPERS' procurement or services contracts;

- (P) The secretary and assistant of any person holding a position listed in (A) through (O), above;
- (Q) The spouse or registered domestic partner of any person holding a position listed in (A) through (O), above.
- (4) Covered Person Employee. Covered Person Employee means a Covered Person who is employed by CalPERS.
- (5) Designated Brokerage. Designated Brokerage means a broker-dealer approved by CalPERS in accordance with subdivision (b).
- (6) Holding Period. Holding Period means the 30 calendar day period between the acquisition and sale, and between sale and re-acquisition, of a Security, on a last-in first-out basis.
- (7) Managed Account. Managed Account means an account with the capability of trading Securities that meets all of the following criteria:
  - (A) It is managed by a third party who is not a Covered Person,
  - (B) No Covered Person has the power to affect or ability to control or influence investment decisions in the account, and
  - (C) No Covered Person communicates (directly or indirectly) with the person(s) with investment discretion regarding the trading activity in the account.
- (8) Permission Request Form. Permission Request Form means a form provided by the Office of Enterprise Compliance to a Covered Person to use to request approval of a transaction in Securities. The Office of Enterprise Compliance may create and provide different Permission Request Forms for different types of Covered Investment Transactions.
- (9) Restricted List. Restricted List means the list of Securities maintained and updated by the Legal Office and distributed to CalPERS officials.
- (10) Security(ies). Securities means all of the following:
  - (A) Publicly traded securities (including but not limited to derivatives, options, puts and calls);
  - (B) Unregistered debt and equity offerings;

- (C) Private equity transactions;
- (D) Hedge fund transactions;
- (E) Fixed income instruments;
- (F) Exchange-traded notes;
- (G) Private offerings;
- (H) Interests in real estate;
- (I) Commodities (including but not limited to futures and forwards).

(b) Designated Brokerages.

- (1) All Covered Accounts must be maintained at a Designated Brokerage.
- (2) CalPERS will establish a list of approved Designated Brokerages. The addition of a broker-dealer to this list of Designated Brokerages will be based on the broker-dealer's ability to provide direct feeds, CalPERS ability to meet any broker-dealer account minimums, and cost.
- (3) A Covered Person Employee has 60 days from the later of the commencement of his or her employment with CalPERS or the effective date of this regulation to move all Covered Accounts to a Designated Brokerage. If it is not possible to move a particular account to a Designated Brokerage, the Covered Person Employee is responsible for obtaining approval from the Office of Enterprise Compliance.

(c) Pre-Clearance Approval. Covered Persons are required to obtain pre-clearance approval before the purchase, sale or transfer of Securities of any size is executed in a Covered Account, unless the transaction is exempt from the requirement of pre-clearance approval under (g).

(1) Pre-Clearance Approval of Public Traded Securities.

- (A) To obtain pre-clearance approval of a publicly traded Security, a Covered Person must input the details of the proposed trade into the CalPERS' authorized online trade system and follow the instructions.
- (B) The Covered Person will receive notification within 24 hours as to whether the proposed trade is approved or denied. If the proposed trade is approved, the approval is valid only during the current

market session, or the next open market session if the approval is received by the Covered Person after the market closes.

(C) If the information in a pre-clearance request materially changes, the pre-clearance process must be completed again prior to undertaking the transaction.

(D) If the transaction is not executed within the approved market session, the pre-clearance process must be repeated prior to undertaking a new transaction (excluding limit and stop orders).

(2) *Pre-Clearance Approval of Securities Not Public Traded.* To pre-clear Securities that are not publicly traded, a request must be submitted to the Office of Enterprise Compliance via a Permission Request Form.

(d) *Holding Period.* Unless exempted by (g), Covered Persons are prohibited from disposing of Securities within 30 calendar days of their acquisition, and from re-acquiring shares of such Securities after their sale, within 30 days of the last sales date, on a last-in, first-out basis. Short selling to circumvent the Holding Period requirement is not permitted.

(e) *Blackout Period.* Unless exempted by (g), Covered Persons are prohibited from buying, selling or transferring Securities during the Blackout Period. The Blackout Period prohibition does not apply to a Covered Person's transactions in the Securities that CalPERS has traded (during the Blackout Period) in a passively managed portfolio (i.e., one that is not actively traded or traded against a strategy). In addition, an exception to the Blackout Period prohibition may be granted by CalPERS if pre-clearance approval of the transaction was obtained in accordance with (c) prior to CalPERS inputting a transaction in the same or equivalent Security.

(f) *Restricted List.* Unless exempted by (g), Covered Persons are prohibited from buying, selling or transferring Securities is on the Restricted List. The purchase or sale of a Security on the Restricted List that is the result of the execution of a limit or stop order isn not a violation of this prohibition, provided the Security was not on the Restricted List at the time the limit or stop order was placed.

(g) *Transactions Exempt from Pre-Clearance, Holding Period and Blackout Period Provisions.* Transactions in the following types of Securities, instruments or accounts are exempt from the pre-clearance requirements of (c), the Holding Period requirements of (d), and the Blackout Period prohibition of (e):

(1) Money-market funds;

(2) Mutual funds and ETFs;

- (3) Index-based securities and options on these securities;
  - (4) Commercial Paper;
  - (5) Unit Investment Trusts;
  - (6) Direct Investment Plans (DRIPs);
  - (7) Brokerage Certificates of Deposit;
  - (8) U.S. Treasury obligations;
  - (9) Debt securities issued by state and municipal governments and government agencies of the United States;
  - (10) Scheduled transactions made through the use of an automatic investment plan (pre-clearance is required when a non-exempt Security is added or modified);
  - (11) Enrollment and scheduled transactions made through an Employer Stock Purchase Plan.
  - (12) Actions that occurred without the input of the Covered Person, e.g. option expiration, called bond, converted Security, etc.;
  - (13) Real estate transactions, provided the real estate interest is not acquired through a private placement vehicle or an investment in a comingled entity;
  - (14) Transactions in any of (1) through (13) above that occur in a previous employers' account.
- (h) Prohibited Transactions. Covered Persons are prohibited from executing the following transactions:
- (1) A transaction that would constitute insider trading under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder or that would violate any other state or federal law.
  - (2) A transaction based on confidential information that a Covered Person Employee learns by virtue of his or her employment with CalPERS.
  - (3) A transaction that is executed on a Security while taking advantage of knowledge of a pending CalPERS order in the same Security, thereby trading "in front of" CalPERS (front-running).

- (4) A transaction that is effected through an account other than a Covered Account in order to circumvent the requirements of or prohibitions contained in this regulation.
- (5) Derivatives of any kind (and any other instrument or device) used to avoid the requirements or prohibitions contained in this regulation.

(i) Reconsideration of Pre-Clearance Denials.

- (1) If a request for pre-clearance approval under (c) is denied, a Covered Person may submit a written request for reconsideration of the denial to the Office of Enterprise Compliance. For all reconsideration requests the Covered Person must certify facts demonstrating why the transaction is not a prohibited transaction. In addition, the Covered Person must provide the following information:
  - (A) For denials based on a violation of the Blackout Period, the Covered Person must provide a certification that the Covered Person had no knowledge at the time the Covered Person requested pre-clearance approval that CalPERS had traded or would trade the same or equivalent Securities during the Blackout Period.
  - (B) For denials based on a violation of the Holding Period, the Covered Person must provide the reason(s) why the Covered Person believes an exception to the Holding Period requirement should be approved.
  - (C) For denials because the Securities are included on the Restricted List, the Covered Person must provide the reason(s) why the Covered Person believes an exception should be approved.
- (2) If the Office of Enterprise Compliance denies a request for reconsideration under (i), the Covered Person may request further reconsideration of the decision by the General Counsel. Requests for reconsideration of denials based on the Restricted List require joint approval of the General Counsel and the Chief Operating Investment Officer. The General Counsel and Chief Operating Investment Officer may delegate the authority to make these decisions to their subordinates.
- (3) All requests for reconsideration will be examined on a case by case basis after evaluation of all surrounding facts and circumstances, including without limitation, a Covered Person's unexpected financial hardships and market conditions (e.g., a declining market, public announcements about a Security).

(j) Reporting.

- (1) Covered Persons must disclose all Covered Accounts and Managed Accounts to the Office of Enterprise Compliance. If a Covered Person is not certain as to whether an account is a Covered Account or Managed Account, it is his or her responsibility to seek, and comply with, guidance from the Office of Enterprise Compliance.
- (2) For Managed Accounts, the Covered Person is required to indicate that the account is managed and provide a copy of the investment advisory agreement or other document that captures the arrangement whereby a third-party managed account provider has discretion to act as investment advisor or to manage any investment or trading account for another person to the Office of Enterprise Compliance.
- (3) Disclosure of Covered Accounts and Managed Accounts must be made on or before the later of 30 days from the commencement of a Covered Person Employee's employment with CalPERS or the effective date of this regulation. In addition, a Covered Person is required to notify the Office of Enterprise Compliance on an ongoing basis if any new accounts are opened or if any existing accounts are closed.
- (4) A Covered Person is required to attest annually that all Covered Accounts and Managed Accounts have been disclosed. Designated Brokerages will supply a direct feed of all transactions on Covered Accounts. For Covered Accounts without an automated feed, Covered Persons must report all purchases, sales and transfers of Securities on a quarterly basis, within 30 calendar days of each new calendar quarter. This report will also include Securities donated or transferred to, or received from, another party.
- (5) CalPERS will treat information reported under this regulation as confidential and not subject to disclosure under the California Public Records Act and will not disclose the information until after the Covered Person is notified and not unless ordered to do so by a court of competent jurisdiction.

(k) Acknowledgment of Regulation. Within 30 calendar days of the later of commencement of a Covered Person Employee's employment with CalPERS or the effective date of this regulation, and on April 1 of every subsequent calendar year, Covered Person Employees must review, acknowledge and affirm that they have read and that they understand this regulation.

(l) Violations. In the event of any alleged violation of this section 558.1, the Office of Enterprise Compliance will conduct an investigation, which will include notification of the Covered Person's direct supervisor. Violations will be referred to the Human Resources Office, the Legal Office, and relevant management



personnel, and will be treated in accordance with CalPERS policies and procedures regarding violations of law, and in accordance with California law, including but not limited to Government Code section 19572. Violations of this section 558.1 may result in disciplinary action, up to and including termination of employment.

NOTE: Authority cited: Sections 20120, 20121, Government Code. Reference: Sections 19990, 87200 et seq. and 87300 et seq., Government Code.

DRAFT